

**STRAWBERRY ELECTRIC SERVICE DISTRICT  
BASIC FINANCIAL STATEMENTS  
INDEPENDENT AUDITORS' REPORT IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*  
INDEPENDENT AUDITORS' REPORT  
ON LEGAL COMPLIANCE  
MANAGEMENT LETTER  
SEPTEMBER 30, 2005**

**STRAWBERRY ELECTRIC SERVICE DISTRICT  
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**LARSON & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT**

November 22, 2005

Board of Trustees  
Strawberry Electric Service District  
Payson, Utah

We have audited the accompanying statement of net assets of Strawberry Electric Service District (the District) as of September 30, 2005, and the related statements of revenues, expenses and changes in fund net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Strawberry Electric Service District, as of September 30, 2005, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 22, 2005, on our consideration of Strawberry Electric Service District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Larson & Peterson  
Certified Public Accountants

## **STRAWBERRY ELECTRIC SERVICE DISTRICT**

### **Management's Discussion and Analysis**

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As management of Strawberry Electric Service District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements and notes.

#### **Financial Highlights**

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,683,145 (net assets). Of this amount \$310,269 (unrestricted net assets) may be used to meet the District's ongoing obligations to customers, employees, and creditors.

The District's total net assets increased during this past fiscal year by \$402,913.

The District acquired capital assets during the past fiscal year of \$712,913 which was primarily financed with the bond funds, collected construction fees and a Zion's property lease.

#### **Overview of the Financial Statements**

The financial statements consist of three separate statements, which are similar to a private-sector business. The Statement of Net Assets present information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenue, Expenses, and Changes in Net Assets present information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected fees charged and earned but unused vacation leave).

The Statement of Cash Flows presents the activities of the District on a cash-received and cash-paid basis. This statement shows how cash was spent and reconciles the change in the cash accounts for the District from the prior year to the current year.

#### **Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$3,683,145 at the close of the most recent fiscal year.

The tables on the following page summarize information presented in the financial statements:

## **STRAWBERRY ELECTRIC SERVICE DISTRICT**

### **Management's Discussion and Analysis**

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The largest portion of the District's net assets (??56 percent) reflects its investments in capital assets (e.g., land, buildings and improvements, and machinery and equipment) less any related debt used to acquire those assets that is still outstanding (e.g., obligations on capital leases). The District uses these capital assets to provide services to participating cities and customers; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional amount of \$891,957 is restricted for the repayment of bonds. The remaining balance of unrestricted net assets (\$310,269) may be used to meet the District's ongoing obligations.

In comparison with the prior year, the following items should be noted:

The District's operating expenses increased by \$284,937. This increase was mostly attributable to power purchase and distribution expense costs.

As discussed in the next section, capital assets increased by \$223,330 and long-term liabilities increased by \$162,331.

### **Capital Asset and Debt Administration**

The District acquired capital assets totaling \$712,913 most of which was attributable to the acquisition of new office, warehouse, distribution and transmission assets during the year ended September 30, 2005. These acquisitions were financed primarily with the issuance of bonds. At the end of the current fiscal year, the District had total capital related debt of \$4,846,192. All capital related debt is scheduled to be retired by September 2022.

### **Economic Factors and Next Year's Budgets and Rates**

The District prepared its 2006 budget anticipating a 2.5% overall growth in residential power revenues.

The District anticipates that both power purchase costs and general administrative costs will increase. The District anticipates an overall increase in expenses of 6%.

### **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mary Ann James, at 803 North 500 East, P.O. Box 349, Payson, Utah 84651.

**STRAWBERRY ELECTRIC SERVICE DISTRICT**  
**Management's Discussion and Analysis**

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**Strawberry Electric Service District's NET ASSETS**

	2005	2004	Total Change 2005-2004
Current assets	1,947,403	1,762,668	184,735
Capital assets	7,327,111	7,103,781	223,330
Bond issuance costs	88,433	93,585	(5,152)
<b>Total assets</b>	<b>9,362,947</b>	<b>8,960,034</b>	<b>402,913</b>
Current liabilities	1,089,747	923,519	166,228
Long-term liabilities	4,590,055	4,660,326	(70,271)
<b>Total liabilities</b>	<b>5,679,802</b>	<b>5,583,845</b>	<b>95,957</b>
Net assets invested in capital assets, net of related debt	2,480,919	2,214,758	266,161
Restricted for bond repayment	891,957	627,142	264,815
Unrestricted net assets	310,269	534,289	(224,020)
<b>Net assets</b>	<b>3,683,145</b>	<b>3,376,189</b>	<b>306,956</b>

**Strawberry Electric Service District's CHANGE IN NET ASSETS**

	2005	2004	Total Change 2005-2004
Operating revenues	4,633,918	4,615,509	18,409
Operating expenses	4,547,589	4,262,652	284,937
Operating income (loss)	86,329	352,857	(266,528)
Nonoperating revenues (expenses)	(33,418)	(124,036)	90,618
Net income (loss)	52,911	228,821	(175,910)
Capital contributions	254,045	226,916	27,129
Net assets, beginning of year	3,376,189	2,920,452	455,737
Net assets, end of year	3,683,145	3,376,189	306,956

**Strawberry Electric Service District**  
**Statement of Net Assets**  
**September 30, 2005**

	<u>2005</u>	<u>2004</u>
<b>ASSETS:</b>		
<b>Current assets:</b>		
Cash and Cash Equivalents	\$ 81,048	\$ 74,988
Restricted Cash and Cash Equivalents	891,957	627,142
Accounts Receivable:		
Power Customers	513,180	483,533
Other	114,663	194,667
Allowance for doubtful accounts	(13,000)	(13,000)
Inventories	326,225	347,310
Prepaid Expenses	33,330	48,028
Total Current Assets	<u>1,947,403</u>	<u>1,762,668</u>
<b>Capital Assets:</b>		
Distribution System	9,998,769	9,581,353
Transmission System	1,256,934	1,256,934
General Equipment	1,156,553	862,903
Construction in Progress	51,297	63,689
Accumulated Depreciation	<u>(5,136,442)</u>	<u>(4,661,098)</u>
Total Capital Assets	<u>7,327,111</u>	<u>7,103,781</u>
<b>Other assets:</b>		
Bond Issuance Costs	88,433	93,585
Total Other Assets	<u>88,433</u>	<u>93,585</u>
<b>Total Assets</b>	<u><u>\$ 9,362,947</u></u>	<u><u>\$ 8,960,034</u></u>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Current Liabilities:</b>		
Current Portion Bonds Payable	\$ 200,000	\$ 195,000
Current Portion Capital Lease Payable	56,137	33,697
Accounts Payable	682,438	534,845
Customer Deposits Payable	26,231	30,101
Accrued Liabilities	124,941	129,876
Total Current Liabilities	<u>1,089,747</u>	<u>923,519</u>
<b>Noncurrent Liabilities:</b>		
Capital Lease Payable	440,669	334,136
Bonds Payable	4,149,386	4,326,190
Total Long Term Liabilities	<u>4,590,055</u>	<u>4,660,326</u>
<b>Total Liabilities</b>	<u>5,679,802</u>	<u>5,583,845</u>
<b>Net Assets:</b>		
Invested in Capital Assets Net of Related Debt	2,480,919	2,214,758
Restricted for Bond Repayment	891,957	627,142
Unrestricted	310,269	534,289
Net Assets	<u>3,683,145</u>	<u>3,376,189</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 9,362,947</u></u>	<u><u>\$ 8,960,034</u></u>

**Strawberry Electric Service District**  
**Statement of Revenue, Expenses and Changes in Net Assets**  
**For the Year Ended September 30, 2005**

	<u>2005</u>	<u>2004</u>
<b>Operating Revenue:</b>		
Electricity Sales	\$ 4,337,799	\$ 4,360,702
Other Revenues	<u>296,119</u>	<u>254,807</u>
Total Operating Revenues:	4,633,918	4,615,509
<b>Operating Expenses:</b>		
Power Purchases	2,684,664	2,469,856
Transmission	112,007	112,482
Distribution	70,591	29,296
Maintenance	325,949	257,233
Customer and Sales Expense	103,266	98,516
Depreciation	476,919	434,304
Amortization	28,347	28,347
Administrative and General	815,593	894,768
Allocated Costs	<u>(69,747)</u>	<u>(62,150)</u>
Total Operating Expenses:	4,547,589	4,262,652
<b>Operating Income (Loss):</b>	86,329	352,857
<b>Non-operating Revenues (Expenses):</b>		
Interest Income	25,888	10,465
Line Extension Fees	39,500	41,304
Annexation Fees	84,330	70,749
Gain (Loss) on Disposal of Assets	62	(43,050)
Interest Expense	<u>(183,198)</u>	<u>(203,504)</u>
Net Non-operating Revenues (Expenses):	(33,418)	(124,036)
<b>Net Income (Loss):</b>	52,911	228,821
<b>Capital Contributions:</b>	<u>254,045</u>	<u>226,916</u>
<b>Total Change in Net Assets</b>	306,956	455,737
<b>Net Assets at Beginning of Year:</b>	<u>3,376,189</u>	<u>2,920,452</u>
<b>Net Asset at End of Year:</b>	<u><u>\$ 3,683,145</u></u>	<u><u>\$ 3,376,189</u></u>



**Strawberry Electric Service District**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2005**

	<u>2005</u>	<u>2004</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from Customers	\$ 4,684,275	\$ 4,630,982
Payments to Suppliers	(3,167,754)	(3,230,935)
Payments to Employees	(699,998)	(697,145)
Net Cash Provided (Used) by Operating Activities	<u>816,523</u>	<u>702,902</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Net Cash Provided (Used) by Noncapital Financing Activities	<u>0</u>	<u>0</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Purchases of Capital Assets	(712,913)	(1,202,996)
Receipt of Line Extension Fees	39,500	41,304
Contributed Capital	254,045	226,916
Receipt of Annexation Fees	85,280	70,957
Issuance of New Debt	220,500	400,000
Principal Paid on Notes Payable	(33,697)	(58,677)
Principal Paid on Capital Lease Payable	(68,994)	(32,167)
Principal Paid on Bonds Payable	(171,804)	(166,805)
Increase (Decrease) in Interest Payable	(255)	1,445
Interest Paid on Capital Debt	(183,198)	(206,199)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(571,536)</u>	<u>(926,222)</u>
<b>Cash Flows From Investing Activities</b>		
Interest Received	25,888	10,465
Net Cash Provided (Used) by Investing Activities	<u>25,888</u>	<u>10,465</u>
Net Increase (Decrease) in Cash and Cash Equivalents	270,875	(212,855)
Cash at Beginning of Year	702,130	914,985
Cash at End of Year	<u>\$ 973,005</u>	<u>\$ 702,130</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Income	\$ 86,329	\$ 352,857
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	476,919	434,304
Amortization Expense	28,347	28,347
(Increase) Decrease in Operating Assets:		-
Accounts Receivable	50,357	15,473
Prepaid Expenses	14,698	2,865
Inventory	21,085	23,441
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	147,593	(204,710)
Accrued Liabilities	(4,935)	47,894
Customer Deposits	(3,870)	2,431
Total Adjustments	<u>730,194</u>	<u>350,045</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 816,523</u>	<u>\$ 702,902</u>

**STRAWBERRY ELECTRIC SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005**

**Note 1. Organization**

Strawberry Electric Service District (the District) was formed in October of 1985, pursuant to the Utah Electric Service District Act, Utah Code 17-6-1. The District is a special district established in order to participate in the benefits of federal power extended to preference customers. The District is empowered to purchase, distribute, and sell electrical energy to retail customers. The District was organized as a political subdivision of the State of Utah and is tax exempt. Upon formation, the District acquired its electric distribution system from Strawberry Water Users Association (the Association). The District also assumes certain receivables and payables relating to the distribution operation in April of 1986, from the Association. The District purchases its power needs from the Association and from Utah Association of Municipal Power Systems (UAMPS). The District is not a component unit of other entities and has no component units.

**Note 2. Significant Accounting Policies**

The accounting policies of the District conform to accounting principles generally accepted in the United State of America that are applicable to local governmental units. The following is a summary of the more significant policies.

Basis of Accounting – The District records revenues and expenses using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The District operates as an enterprise fund, which accounts for activities in a manner similar to private business where the Board has decided that the determination of revenues earned, costs incurred, and net income is necessary for management accountability. The District applies all applicable Financial Accounting Standards Board pronouncements in accounting and reporting for its operations to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Inventories – Inventories consist primarily of power poles, wire, and miscellaneous parts and are valued at cost by the moving average method.

Prepaid Expenses – Prepaid expenses consist of insurance premiums and purchased power paid in advance of the receipt of such services.

Capital Assets – Purchased capital assets are stated at cost. Self-constructed assets include direct cost of materials, labor, and an allocation for equipment use based on market rates.

Provision for depreciation of capital assets is provided over the estimated useful lives of the assets using the straight-line method. Upon the sale or retirement of capital assets, the related asset costs and accumulated depreciation are removed from

**STRAWBERRY ELECTRIC SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005**

the applicable accounts and gain or loss on disposal is recorded. The District capitalizes all acquisitions of capital assets with a cost of \$3,000 or more.

Depreciation expense related to assets financed by contributed capital is recorded in the statement of revenues, expenses, and changes in retained earnings; the District has elected to close such depreciation to contributed capital rather than to retained earnings.

Contributed Capital – Cash received from other governments, developers or users to help defray a portion of the costs of the power distribution system are recorded as contributed capital.

Compensated Absences – Employees are granted vacation and sick leave in amounts varying with tenure. In the event of termination or death, an employee is reimbursed for accumulated vacation days. At September 30, 2005, unpaid compensated absences total \$51,077.

**Note 3. Cash Deposits**

The District deposits cash in checking and money market savings accounts with a local qualified financial institution. Deposits are not collateralized nor are they required to be according to the State of Utah statutes. The District follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The carrying amount of deposits at September 30, 2005 totaled \$972,705 and the bank balance at that date is \$1,451,668, \$100,000 of which is covered by federal depository insurance.

**Note 4. Long-Term Debt**

As of September 30, 2005, the long-term debt payable from fund resources consisted of the following:

**STRAWBERRY ELECTRIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

**Revenue Bonds**

2002 Electric Revenue Bonds

Original Principal \$5,230,000 @ Varies \$ 4,620,000

Issuance Premium (270,613)

Total revenue bonds 4,349,387

**Capital Leases**

Zions Bank - Property

Original Principal \$400,000 @ 4.7% 334,134

Zions Bank - Truck

Original Principal \$220,500 @ 4.4% 162,665

Total capital leases 496,799

Total Long-term debt \$ 4,846,186

The following is a summary of changes in long-term debt for the year ended June 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Bonds Payable:</b>					
Revenue Bonds	\$ 4,815,000	\$ -	\$ (195,000)	\$ 4,620,000	\$ (200,000)
Deferred Amounts for Issuance Premium	(293,809)		23,196	(270,613)	
Total Bonds Payable	4,521,191	-	(171,804)	4,349,387	(200,000)
Notes Payable	33,697				
Capital Lease Payable	367,833	220,500	(91,534)	496,799	
Total Long-term Liabilities	\$ 4,922,721	\$ 220,500	\$ (263,338)	\$ 4,846,186	\$ (200,000)

**STRAWBERRY ELECTRIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

The annual requirements to amortize the revenue bond outstanding as of September 30, 2005, including interest payments are listed as follows:

Year Ending September 30,	Principal	Interest	Total
2006	200,000	170,256	370,256
2007	205,000	163,516	368,516
2008	215,000	156,177	371,177
2009	220,000	148,093	368,093
2010-2014	1,250,000	599,519	1,849,519
2015-2019	1,500,000	349,050	1,849,050
2020-2023	1,030,000	74,643	1,104,643
Total	\$ 4,620,000	\$ 1,661,254	\$ 6,281,254

The annual requirements to amortize the capital lease outstanding as of September 30, 2005, including interest payments are listed as follows:

Year Ending September 30,	Principal	Interest	Total
2006	\$ 56,137	\$ 21,476	\$ 77,613
2007	60,687	19,382	80,069
2008	63,510	16,559	80,069
2009	66,465	13,605	80,070
2010	69,556	10,513	80,069
2011-2013	180,450	13,088	193,538
Total	\$ 496,805	\$ 94,623	\$ 591,428

**Note 5. Annexation Fees**

The annexation fees included in non-operating income resulted from a settlement agreement between Spanish Fork City and the District. As a result of this settlement, Payson City and Salem City entered into the same agreement. The District is to receive annexation fees for reimbursement for the fair value of the District's facilities dedicated to provide service to customers previously annexed by Spanish Fork City, Payson City, and Salem City. The District is to receive \$2,862,

**STRAWBERRY ELECTRIC SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005**

\$9,050, and \$5,200 from Spanish Fork City, Payson City, and Salem City, respectively, for ten years beginning in 1998 and ending in 2007.

The cities have also agreed to pay the District 11% of the estimated revenue charges covering a ten-year period of time for the transfer of customers from the District to the cities. The cities have the option of paying the entire estimated amount up front or paying it over the same ten-year period of time that the estimation covers.

**Note 6. Risk Financing**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage in the past three years.

Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities would include an amount for claims that have been incurred but not reported. There have been no significant claims filed against the District in the previous two fiscal years. Also, the District is unaware of any claims outstanding or pending that would require further disclosure.

**Note 7. Commitments to Purchase Power**

The District has entered into agreements with various power companies to purchase power for set rates over specified periods of time. The rates on these agreements range from \$0.020 to \$0.050 per kilowatt hour. The ending dates of the contracts range from December 2007 to September 2024.

These commitments for wholesale power purchases into the future potentially could equate into losses or profits for the District if power rates in general do not rise or rise above the committed wholesale price or if the demand for the power does not increase. However, a reasonable estimate of the size of a potential loss or profit cannot be made nor is such a loss or profit certain since it is impossible to predict what the load demand of power or what the wholesale power rates will be during the duration of these contracts. Therefore, no loss contingency has been accrued on the financial statements.

**Note 8. Former Related Party**

The District was previously associated with the Strawberry Water Users Association as a related party. This relationship was ended in September of 2003 and disclosures will not longer be made in the future.

**STRAWBERRY ELECTRIC SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005**

**Note 9. Employee Retirement Systems and Plans**

**Local Governmental - Cost Sharing Defined Benefits Pension Plans**

**Plan Description.** The District contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) which is a cost-sharing, multiple-employer defined benefit pensions plan administered by the Utah Retirement Systems (Systems). The Systems provide, retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the State Retirement Office (Office) for the administration of the Utah retirement Systems and Plans. Chapter 40 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

**Funding Policy:** The District is required to contribute 11.090% of covered salary to the Noncontributory Retirement System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The District's contributions to the Local Governmental Noncontributory Retirement Systems for September 30, 2005, 2004, and 2003 were \$78,318, \$70,980, and \$8,655 respectively. The contributions were equal to the required contributions for each year.

**Deferred Compensation Plans**

**401(k) Deferred Compensation Plan.** The employees of the District also participate in a 401(k) deferred compensation plan. Contributions made by the District for employees totaled \$0, \$2,017, and \$0, for the years ended September 30, 2005, 2004, and 2003, respectively.

***GOVERNMENT AUDITING STANDARDS REPORT***





**LARSON & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN  
AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

November 22, 2005

Board of Trustees  
Strawberry Electric Service District

We have audited the accompanying basic financial statements of the Strawberry Electric Service District (herein referred to as the "District"), as of and for the year ended September 30, 2005, and have issued our report thereon dated November 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of the its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in the management letter.

This report is intended for the information of the Board of Trustees, management, others within the organization, and various federal and state funding and auditing agencies and is not intended to be and should not be used by anyone other than these specified parties.

Larson & Peterson  
Certified Public Accountants

## **STATE COMPLIANCE REPORT**



**LARSON & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

November 22, 2005

Board of Trustees  
Strawberry Electric Service District

We have audited the basic financial statements of the Strawberry Electric Service District, Utah, as of and for the year ended September 30, 2005, and have issued our report thereon dated November 22, 2005. The District received no major state assistance from the State of Utah.

Our audit also included test work on the Strawberry Electric Service District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Guide, including:

Public Debt  
Cash Management  
Purchasing Requirements  
Impact Fees

Budgetary Compliance  
Other General Compliance Issues  
Special Service Districts

The management of the Strawberry Electric Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred.

An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the Strawberry Electric Service District, complied, in all material respects, with the general compliance requirements identified above for the year ended September 30, 2005.

Larson & Peterson  
Certified Public Accountants

## **MANAGEMENT LETTER**

## **MANAGEMENT LETTER CURRENT YEAR FINDINGS**

### **INTERNAL CONTROL FINDINGS**

#### ***FINDING – DISBURSEMENTS***

Of 60 disbursements tested, one check could not be located. This was a voided check. Also, one check the computer printed had a check number assigned to it that did not match the actual check number.

#### ***RECOMMENDATION***

We recommend that all disbursements have supporting documentation in the District's files (i.e. checks and supporting documentation.) Additionally, we recommend that disbursements, whether computerized or manual, be accounted for serially and chronologically.

#### ***DISTRICT'S RESPONSE***

The District will more closely monitor disbursements to ensure that supporting documentation exists and that they are serially and chronologically accounted for.

**MANAGEMENT LETTER  
STATUS OF PRIOR YEAR FINDINGS**

**INTERNAL CONTROL FINDINGS**

***FINDING – DISBURSEMENTS***

Of 60 disbursements tested, one check could not be located. The check was to pay a cleaning contractor and had no supporting documentation. Also, one check the computer printed had a check number assigned to it that did not match the actual check number.

***STATUS***

See current year findings.